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GRAY DRUG STORES, INC.

ANNUAL REPORT TO SHAREHOLDERS...

FOR THE YEAR ENDED JUNE 30, 1955

GRAY DRUG STORES, INC.

MAIN OFFICE AND WAREHOUSE — 2400 SUPERIOR AVENUE
CLEVELAND, OHIO

●

LABORATORY — 1707 CRAWFORD ROAD
CLEVELAND, OHIO

●

BOARD OF DIRECTORS

CARLYLE W. EVANS	Executive Vice-President, Gray Drug Stores, Inc.
HENRY H. GRAY	Vice-President, Gray Drug Stores, Inc.
CHARLES B. MERRILL	President, Merrill, Turben & Co.
GEORGE F. PRYOR	Vice-President, The Cleveland Trust Company
JOHN W. REAVIS	Partner, Jones, Day, Cockley and Reavis
ADOLPH WEINBERGER	President, Gray Drug Stores, Inc.
CARL WEINBERGER	Buyer, Gray Drug Stores, Inc.

OFFICERS

ADOLPH WEINBERGER	President
CARLYLE W. EVANS	Executive Vice-President
HENRY H. GRAY	Vice-President
MILTON M. NEUBAUER	Vice-President
LLOYD C. DOUGLASS	Vice-President and Treasurer
LOUIS BERWITT	Secretary
ROBERT E. BREIG	Assistant Treasurer
JOSEPH VALINS	Assistant Secretary

TRANSFER AGENT AND REGISTRAR

THE CLEVELAND TRUST COMPANY ..... Cleveland, Ohio

AUDITORS

ERNST & ERNST ..... Cleveland, Ohio

COUNSEL

JONES, DAY, COCKLEY and REAVIS ..... Cleveland, Ohio

REPORT TO STOCKHOLDERS

To Our Stockholders:

In submitting your Company's annual report for the year ending June 30, 1955 it is gratifying to report that our net earnings showed an increase over last year. It is also a pleasure to report to you, as in previous years, some of the operations of your Company.

Net sales of $23,390,391 reached a new high in the history of the Company resulting in an increase of 3.6% over $22,578,421 net sales for the fiscal year ending June 30, 1954. After deducting all charges, including taxes, net income for the year was $470,560, or $3.20 a share of Common Stock as compared with $2.85 a share for the preceding year, an increase of approximately 12.28%. Net profit before taxes was $953,560, or 4.08% of net sales.

During the past year three new stores were opened. These were all in large shopping centers and two units were self-service. Three stores were sold and two small stores were closed. Seven stores were remodeled and improved for easier shopping. Seventy-eight stores were in operation at the close of the year.

Plans for the coming fiscal year call for the opening of about eight new units and we expect them to be of the self-service type. This trend to self-serve shopping units is in line with the thinking of the drug industry to make shopping easier, more comfortable and, of course, more profitable. Also scheduled is the modernization of three additional stores.

We are proud of our stores, especially the new ones, and we invite you to visit them, as we think they are among the best anywhere.

The cooperation of our employees, stockholders and directors, and the continued loyalty of our customers, has helped to make this a very good year. It is through their combined efforts that the satisfactory results of your company's operations were made possible. To them all, I extend my sincere appreciation.

Respectfully,

Adolph Weinberger

President

TWENTY SEVEN YEAR RECORD of PROGRESS

Fiscal	Stores End of Year	Net Sales	Net Income (3)	Earnings Per Common Share (4)	Dividends Paid Per Share
1929	17	$ 1,531,636	$120,107	$4.00	$1.67
1930	21	2,136,818	88,655	1.22	1.00
1931	24	2,604,609	100,482	1.33	1.00
1932	26	2,547,357	87,893	1.16	1.00
1933	26	2,498,932	80,382	1.06	1.00
1934	29	3,201,663	112,408	1.49	1.00
1935 (1)	29	1,790,809	57,587	.76	.50
1936	33	4,406,753	163,774	2.05	1.05
1937	37	5,384,723	243,088	3.04	1.90
1938	38	5,374,763	132,821	1.66	1.60
1939	38	5,154,803	113,863	1.42	.50
1940	40	5,509,435	139,430	1.74	.75
1941	39	6,925,221	172,476	1.92	1.00
1942	44	7,965,870	176,651	1.96	.75
1943	43	9,135,763	193,896	2.15	.50
1944	43	9,469,467	172,278	1.91	.75
1945	78	10,003,588	175,407	1.78	1.00
1946	91	14,700,500	336,910	2.47	1.65
1947	91	17,496,500	388,284	2.80	1.30
1948	78	16,227,105 (2)	293,263	2.11	1.30
1949	79	15,643,806	241,014	1.74	1.05
1950	77	15,283,817	281,994	2.03	.80
1951	74	16,833,818	324,702	2.32	.80
1952	80	19,268,081	250,767	1.78	1.00
1953	78	21,075,426	327,898	2.32	1.00
1954	80	22,578,421	407,643	2.85	1.00
1955	78	23,390,391	470,560	3.20	1.00

(1) Six months ended June 30, 1935. Changed fiscal year from calendar year to one ending June 30.

(2) In addition to the drop in sales resulting from the sale of thirteen stores, at the beginning of this year state cigarette excise taxes are excluded from sales.

(3) Before reflecting reserves for contingencies which were restored to earnings retained in the business as of June 30, 1948.

(4) Based upon the number of shares outstanding at the end of each year.

ACCOUNTANTS' REPORT

Board of Directors,
Gray Drug Stores, Inc.,
Cleveland, Ohio.

We have examined the consolidated balance sheet of Gray Drug Stores, Inc., and subsidiaries as of June 30, 1955, and the related statements of consolidated profit and loss, capital in excess of par value, and earnings retained for use in the business for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of profit and loss, capital in excess of par value, and earnings retained for use in the business present fairly the consolidated financial position of Gray Drug Stores, Inc., and subsidiaries at June 30, 1955, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST
Certified Public Accountants

Cleveland, Ohio
August 22, 1955

CONSOLIDATED BALANCE SHEET

ASSETS

CURRENT ASSETS			
Cash			$ 1,029,231
Accounts receivable, less allowance of $10,000			76,713
State tax stamps			71,719
Inventories — priced generally on the basis of the lower of cost (latest) or replacement market:			
At stores		$ 2,957,049	
At warehouse		1,332,575	
At laboratory		32,407	
		$ 4,322,031	
In transit		144,222	4,466,253
TOTAL CURRENT ASSETS			**$5,643,916**
OTHER ASSETS			
Cash surrender value of life insurance		$ 89,719	
Notes receivable from sale of stores		34,815	
Miscellaneous receivables, deposits, etc.		43,557	168,091
FIXED ASSETS—at cost, less allowances for depreciation and amortization			
Furniture and fixtures	$ 2,729,117		
Leasehold improvements	1,582,888	$ 4,312,005	
Less allowances for depreciation and amortization		1,958,806	2,353,199
PATENTS AND TRADE-MARKS			1
DEFERRED CHARGES			
Prepaid insurance, taxes, etc.			114,155
			$8,279,362

STORES, INC., AND SUBSIDIARIES, JUNE 30, 1955

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES

Portion of long-term debt due within one year		$ 138,112
Accounts payable and accrued expenses:		
Trade accounts and sundry accrued items	$ 1,295,601	
Salaries, wages, and commissions	334,557	
Payroll taxes and taxes withheld from employees	78,188	
Taxes (other than federal taxes on income)	130,200	
Rent and interest	128,644	1,967,190
Federal taxes on income—estimated		524,494
TOTAL CURRENT LIABILITIES		**$2,629,796**

LONG-TERM DEBT

Note payable to insurance company—Note A	$ 1,055,951	
Less portion classified as current	138,112	917,839

SHAREHOLDERS' EQUITY

Capital stock (par value $1.00 a share)—Note B:		
Authorized 150,000 shares Outstanding — 146,925 shares	$ 146,925	
Capital in excess of par value	1,913,797	
	$ 2,060,722	
Earnings retained for use in the business—Note A	2,671,005	4,731,727

CONTINGENT LIABILITY

On note receivable (from sale of store) sold to bank—$30,377

$8,279,362

See notes to financial statements.

STATEMENT of CONSOLIDATED PROFIT and LOSS

GRAY DRUG STORES, INC., AND SUBSIDIARIES

Year ended June 30, 1955

Net sales	**$23,390,391**
Cost of goods sold	14,576,092
	$ 8,814,299
Other operating income	98,535
	$ 8,912,834
Selling, general, and administrative expenses	7,932,427
	$ 980,407
Other income	22,591
	$ 1,002,998
Interest expense	49,438
PROFIT BEFORE FEDERAL TAXES ON INCOME	**$ 953,560**
Federal taxes on income—estimated	483,000
NET PROFIT	**$ 470,560**

See notes to financial statements.

STATEMENT of CONSOLIDATED CAPITAL in EXCESS of PAR VALUE and EARNINGS RETAINED for USE in the BUSINESS

GRAY DRUG STORES, INC., AND SUBSIDIARIES

Year ended June 30, 1955

CAPITAL IN EXCESS OF PAR VALUE

Balance at July 1, 1954	$ 1,890,885
Excess of option price over par value of 2,350 shares of capital stock sold during the year	22,912
BALANCE AT JUNE 30, 1955	**$1,913,797**

EARNINGS RETAINED FOR USE IN THE BUSINESS

Balance at July 1, 1954		$ 2,346,338
Net profit for the year		470,560
		$ 2,816,898
Cash dividends declared:		
$.25 a share paid October 1, 1954	$ 36,112	
$.25 a share paid January 3, 1955	36,556	
$.25 a share paid April 1, 1955	36,569	
$.25 a share paid July 1, 1955—Note C	36,656	145,893
BALANCE AT JUNE 30, 1955		**$2,671,005**

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

GRAY DRUG STORES, INC., AND SUBSIDIARIES

Year ended June 30, 1955

NOTE A — The loan agreement provides for interest at the rate of 3¾ per cent per annum, for repayment in semiannual installments of $50,000 and for additional payments each year to the extent of 20 per cent of the excess of consolidated net profit for the preceding year over $280,000 ($38,112 will be due on November 1, 1955, under such requirement); however, the additional payment shall not exceed $100,000 in any year. The agreement includes, among other things, certain provisions relating to the maintenance of consolidated net current assets and certain restrictions on the payment of dividends. Accordingly, consolidated earnings retained for use in the business available for dividends amounted to $1,014,120 at June 30, 1955.

NOTE B — On October 18, 1950, the Company granted stock options to certain officers and employees to purchase 5,400 shares of capital stock, par value $1.00 a share, exercisable at anytime prior to October 18, 1955, at $10.75 per share. All of such options were exercised prior to June 30, 1955, including options for 2,350 shares which were exercised during the year ended June 30, 1955, at $10.75 per share. The total option price of such 2,350 shares was $25,262.50 and the aggregate quoted market value ($16 to $17½ per share) of such shares was $38,150.

The portion of the option price representing the par value of the shares sold was credited to stated capital and the excess of the option price over the par value of capital stock sold was credited to capital in excess of par value. No charge was made against income as a result of the option plan.

On May 24, 1955, the Company granted, subject to approval of the holders of not less than two thirds of the outstanding common stock of the Company, stock options to certain officers and key employees (three of whom are directors) to purchase 15,000 shares of capital stock exercisable at any time between two years and five years from May 24, 1955. The option price is $16.37½ per share, which represents quoted market value at May 24, 1955, except that the option price for two employees (related to principal shareholder) is $18.70 per share to permit qualification as a restricted stock option. The aggregate option price of all shares is $253,995.

At the annual meeting to be held on September 27, 1955, shareholders of the Company will be asked to act upon this stock option plan, and to increase the authorized shares which will be necessary to put such plan into effect.

NOTE C — On June 29, 1955, the Company deposited funds with the dividend disbursing agent for payment of the dividend payable July 1, 1955.

NOTE D — At June 30, 1955, the companies were lessees under a number of leases extending from one to twenty-one years. The aggregate annual minimum rental payable (many of such leases provide for additional rental if amounts based on specific percentages of sales exceed the minimum) amounted to approximately $998,000.

NOTE E — Allowances for depreciation and amortization aggregated $412,190 for the year.

NOTE F — Total contributions under the pension plan for employees of the companies amounted to approximately $101,000 for the year ended June 30, 1955, including amortization of cost of past service benefits to retirement age of participants. At June 30, 1955, the unfunded cost of past service benefits amounted to approximately $43,000.

GRAY DRUG STORES, INC.

OPERATING SEVENTY-EIGHT STORES
IN THE FOLLOWING CITIES:

OHIO

Akron
Alliance
Barberton
Boardman
Canton
Cleveland
Columbus
Cuyahoga Falls
Dayton
East Cleveland
Euclid
Fairview Park
Garfield Heights
Lakewood
Mansfield
Maple Heights
Massillon
Painesville
Sandusky
Sheffield
Steubenville
Struthers
University Heights
Warren
Wooster
Youngstown

Bradford, Pennsylvania